

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 XMB-02 OPIC-03 SP-02 CIEP-01 LAB-04
SIL-01 OMB-01 USIE-00 NSC-05 SS-15 STR-04 CEA-01
SSO-00 NSCE-00 PA-01 PRS-01 INRE-00 /077 W
-----112101Z 013222 /66

O 111957Z FEB 77 ZFF-4
FM AMEMBASSY LISBON
TO SECSTATE WASHDC NIACT IMMEDIATE 0178
/DEPARTMENT OF TREASURY WASHDC NIACT IMMEDIATE

C O N F I D E N T I A L SECTION 1 OF 2 LISBON 1206

E.O. 11652: GDS
TAGS: EGIN, ECON, PO
SUBJ: FINANCIAL ASSISTANCE TO PORTUGAL; GOP
ACCEPTS \$300 MILLION LOAN

1. FOLLOWING ARE TEXTS OF TWO LETTERS DELIVERED TODAY,
FEB 11, AT 1900 TO EMBASSY ADDRESSED TO US SECRETARY
OF TREASURY:

2. BEGIN TEXT:

LISBON, FEBRUARY 11,

DEAR MR. SECRETARY:

WE ACKNOWLEDGE RECEIPT OF YOUR LETTER OF FEBRUARY 5,
1977, TOGETHER WITH THE THREE ANCILLARY AGREEMENTS
BETWEEN THE BANK OF PORTUGAL AND THE UNITED STATES
TREASURY EXCHANGE STABILIZATION FUND. ON BEHALF OF
THE BANK OF PORTUGAL, WE AGREE TO ALL THE TERMS AND
CONDITIONS SPECIFIED IN YOUR LETTER AND THE ANCILLARY
AGREEMENTS.

YOUR LETTER OF FEBRUARY 5, 1977 AND THIS REPLY, WITH
THE ENCLOSED ANCILLARY AGREEMENTS SIGNED BY THE DULY
AUTHORIZED REPRESENTATIVES OF THE BANK OF PORTUGAL,
CONSTITUTE AN AGREEMENT BETWEEN THE UNITED STATES
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GOVERNMENT AND THE BANK OF PORTUGAL. WE WOULD
APPRECIATE CONFIRMATION OF THE DATE OF RECEIPT OF THIS
LETTER AND THE ENCLOSED ANCILLARY AGREEMENTS AT WHICH
DATE THE AGREEMENT WILL ENTER INTO FORCE.

SINCERELY YOURS,
JOSE DE SILVA LOPES
GOVERNOR

VICTOR MANUEL RIBEIRO
CONSTANCIO
VICE GOVERNOR
BANK OF PORTUGAL END TEXT

3. BEGIN TEXT

LISBON, FEBRUARY 11

DEAR MR. SECRETARY:

IN VIEW OF THE CLOSE COLLABORATION BETWEEN OUR TWO GOVERNMENTS IN THE PURSUIT OF OUR MUTUAL ECONOMIC OBJECTIVES, I TAKE THIS OPPORTUNITY TO OUTLINE TO YOU THE ECONOMIC OBJECTIVES AND POLICIES OF THE PORTUGUESE GOVERNMENT.

THE GOVERNMENT OF PORTUGAL, WHICH TOOK OFFICE IN JULY 1976, INHERITED VERY SERIOUS ECONOMIC PROBLEMS: PARALYSIS OF INVESTMENT, LOW WORKER PRODUCTIVITY, HIGH RATES OF INFLATION AND UNEMPLOYMENT, VERY LARGE BALANCE OF PAYMENTS DEFICITS, A DISTORTED PRICE STRUCTURE, AND AN INFLUX OF ABOUT 500,000 RETURNEES FROM THE FORMER COLONIES. SINCE TAKING OFFICE, THE GOVERNMENT HAS BEGUN TO DEAL WITH SOME OF THESE PROBLEMS AND HAS RESOLVED TO CONTINUE TO ATTACK THEM IN THE FRAMEWORK OF AN OPEN ECONOMY AND FREE INTERNATIONAL TRADE.

A PRIORITY OBJECTIVE OF THE PORTUGUESE GOVERNMENT IS TO ELIMINATE DISTORTIONS IN THE PRICE STRUCTURE WHICH DISRUPT OUTPUT AND PRODUCTIVITY. TO THIS END, THE GOVERNMENT RECOGNIZES THE NEED FOR A GRADUAL REDUCTION OF THE COMMODITIES AND SERVICES UNDER PRICE CONTROLS. THE GOVERNMENT HOPES IN THE NEXT FEW MONTHS

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TO RELAX CONTROLS ON A NUMBER OF LESS ESSENTIAL GOODS WHICH COMPRISE ABOUT TEN PERCENT OF THE TOTAL OF ITEMS CURRENTLY ON THE PRICE CONTROL LIST.

THE GOVERNMENT INTENDS TO MODIFY THE SYSTEM OF RENT CONTROLS WITH THE PURPOSE OF ALLOWING PERIODIC UPDATING OF RENTS IN ORDER THAT THEY WILL ADJUST PROGRESSIVELY TO THE LEVELS CORRESPONDING TO THE ACTUAL VALUE OF THE RENTED HOUSES.

THE GOVERNMENT IS ALSO CONTEMPLATING A GRADUAL INCREASE OF INTEREST RATES, IN ORDER TO CONTRIBUTE TO THE REDUCTION OF THE BALANCE OF PAYMENTS DEFICIT AND SO THAT SAVINGS MAY BE STIMULATED AND FUNDS CHanneled INTO ESSENTIAL INVESTMENTS. AS A FIRST STEP IN THIS DIRECTION THE GOVERNMENT IS PLANNING TO INCREASE SHORTLY AVERAGE INTEREST RATES ON TIME DEPOSITS BY APPROXIMATELY TWO PERCENTAGE POINTS.

OUR PRIMARY AIM IN THE AREA OF PUBLIC FINANCE IS TO REDUCE THE CURRENT ACCOUNT DEFICIT OF THE PUBLIC SECTOR. THE 1977 BUDGET, PRESENTED TO THE PORTUGUESE

ASSEMBLY ON NOVEMBER 15, CALLS FOR A REDUCTION IN THE CURRENT ACCOUNT DEFICIT OF SIX PERCENT FROM THE ACTUAL 1976 LEVEL. THE OVERALL DEFICIT OF THE PUBLIC SECTOR, WHICH INCLUDES INVESTMENTS, IS BUDGETED TO REMAIN ALMOST CONSTANT (AN INCREASE OF 1.4 PERCENT). THIS CONTAINMENT OF THE NONINVESTMENT PORTION OF THE DEFICIT, IN THE FACE OF CONTINUED PRICE INCREASES, WILL BE

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SIL-01 OMB-01 USIE-00 NSC-05 SS-15 STR-04 CEA-01
SSO-00 NSCE-00 PA-01 PRS-01 INRE-00 /077 W
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O 111957Z FEB 77 ZFF-4
FM AMEMBASSY LISBON
TO SECSTATE WASHDC NIACT IMMEDIATE 0179
DEPT OF TREASURY WASHDC NIACT IMMEDIATE

C O N F I D E N T I A L SECTION 2 OF 2 LISBON 1206

ACHIEVED THROUGH THE GOVERNMENT'S INTENTION TO ELIMINATE THE SIZABLE DEFICITS OF THE SOCIAL SECURITY SYSTEM AND THE AUTONOMOUS FUNDS. THROUGH A COMBINATION OF INCREASED RATES AND RATIONALIZATION OF OPERATIONS, THE GOVERNMENT PLANS TO BALANCE THE SOCIAL SECURITY ACCOUNTS AND TO PRODUCE A SURPLUS IN THE AUTONOMOUS FUNDS.

AS A MEANS OF FURTHER REDUCING THE INFLATIONARY IMPACT OF THE DEFICIT, THE GOVERNMENT HAS PROPOSED TO THE ASSEMBLY OF THE REPUBLIC A COMPULSORY SAVING PLAN. THIS PLAN HAS LITTLE CHANCE OF BEING ACCEPTED BY THE ASSEMBLY, BUT THE GOVERNMENT INTENDS TO PRESENT NEW PROPOSALS OF THIS TYPE IN THE NEAR FUTURE.

THE GOVERNMENT OF PORTUGAL IS PLANNING TO IMPROVE THE BASIC INFRASTRUCTURE OF PORTUGAL THROUGH AN INCREASED LEVEL OF CAPITAL FORMATION. TO THIS END, THE PROPOSED 1977 BUDGET INCLUDES A 22 PERCENT INCREASE IN INVESTMENTS OVER THE 1976 LEVEL.

THE GOVERNMENT HAS ANNOUNCED THAT THE WAGE BILL OF CIVIL SERVANTS WILL NOT INCREASE BY MORE THAN 15 PERCENT IN 1977. THE PUBLIC ENTERPRISES AND AGENCIES HAVE ALSO BEEN INSTRUCTED TO LIMIT THEIR RESPECTIVE WAGE BILLS TO

INCREASES OF 15 PERCENT. THE GOVERNMENT HOPES THAT THIS
WAGE NORM WILL INFLUENCE WAGE SETTLEMENTS IN THE PRIVATE
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SECTOR.

IN KEEPING WITH THE ANNOUNCED AIMS OF AN OPEN
ECONOMY AND FREE INTERNATIONAL TRADE, THE GOVERNMENT OF
PORTUGAL HAS MADE CLEAR ITS DESIRE TO CONTINUE TO MOVE IN
THESE DIRECTIONS AS RAPIDLY AS CONDITIONS AND OUR FINANCIAL
CAPABILITY PERMIT. IN ACHIEVING THESE OBJECTIVES, THE
GOVERNMENT PLANS TO WORK CLOSELY AND IN FULL COOPERATION
WITH THE INTERNATIONAL MONETARY FUND.

I AM PLEASED THAT IN ORDER TO REINFORCE PORTUGAL'S
EFFORTS TO ACHIEVE ECONOMIC STABILITY, THE UNITED STATES
TREASURY EXCHANGE STABILIZATION FUND AND THE BANK OF
PORTUGAL HAVE REACHED AGREEMENT ON AN APPROXIMATELY \$300
MILLION SHORT-TERM CREDIT ARRANGEMENT. I WOULD
LIKE TO TAKE THIS OPPORTUNITY TO STATE, ON BEHALF OF THE
REPUBLIC OF PORTUGAL, THAT THE REPUBLIC OF PORTUGAL WILL
COOPERATE IN EVERY WAY POSSIBLE TO ASSURE THE BANK OF
PORTUGAL FULLY MEETS ITS OBLIGATIONS UNDER THAT AGREEMENT.
IN PARTICULAR, I CAN ASSURE YOU THAT, SHOULD THE BANK OF
PORTUGAL'S HOLDINGS OF RESERVES BE INADEQUATE TO MEET
THE TIMELY DISCHARGE OF ITS OBLIGATIONS UNDER
ANCILLARY AGREEMENT NO. 1, PORTUGAL WILL MAKE DRAWINGS
IN THE REQUIRED AMOUNTS FROM THE INTERNATIONAL MONETARY
FUND IN ACCORDANCE WITH THE ARTICLES OF AGREEMENT OF
THE FUND.
SINCERELY YOURS,

MEDINA CARREIRA

GOVERNMENT OF PORTUGAL END TEXT

4. BANK OF PORTUGAL HAS TRANSMITTED FIRST LETTER BY
COMMERCIAL TELEX ATTENTION SECRETARY BLUMENTHAL. TELEX
DOES NOT CONTAIN SECOND LETTER. AS DEPARTMENT AND
TREASURY AWARE, SECOND LETTER IS CONFIDENTIAL AND GOP
ASKS THAT WE TREAT IT ACCORDINGLY. SIGNED COPIES OF
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BOTH LETTERS BEING POUCHED.
CARLUCCI

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
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Control Number: n/a
Copy: SINGLE
Sent Date: 11-Feb-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Handling Restrictions: n/a
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Original Previous Classification: n/a
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Subject: FINANCIAL ASSISTANCE TO PORTUGAL; GOP ACCEPTS \$300 MILLION LOAN
TAGS: ECIN, ECON, PO, US
To: STATE TRSY
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